

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6200
BILL NUMBER: HB 1012

NOTE PREPARED: Nov 16, 2003
BILL AMENDED:

SUBJECT: Judges' Pensions.

FIRST AUTHOR: Rep. Kromkowski
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill: (1) allows a person serving as a full-time magistrate on July 1, 2004, and requires a person who begins serving as a full-time magistrate after that date, to become a participant in the Judges' 1985 Benefit System; (2) allows magistrates who are participants in the Judges' 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service covered by an Indiana Public Employees' Retirement Fund (PERF); and (3) increases the monthly benefit payable to participants, survivors, and beneficiaries of the Judges' 1985 Benefit System by the same percentages and under the same conditions as the monthly benefit is increased for members of the PERF. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2004.

Explanation of State Expenditures: NOTE: The following estimate for the magistrates is based on data from 2002. This part of the fiscal note will be updated upon receipt of 2003 data.

(1) The first provision provides for full-time magistrates to become participants in the Judges' 1985 Benefit System. There are 66 full-time magistrates eligible to become members of the Judges' Retirement System as a result of this proposal. The cost of this provision is estimated to be approximately \$237,522 over the next five years, or approximately \$47,504 per year. The fund affected is the state General Fund. This assumes that all persons serving as magistrates and eligible to join the Judges' Retirement System on July 1, 2003, do so. If this is not the case, the estimated fiscal impact described above will be reduced. The specific impact will depend upon choices made by the eligible magistrates.

(2) The second provision allows magistrates who are participants in the 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service as a full-time commissioner, magistrate, or referee, or

for prior service in other Indiana Public Employees' Retirement Fund positions. This provision can result in increased future payouts from the Judges' Retirement System in certain situations.

(3) This provision also provides a cost-of-living adjustment (COLA) for judges. The following illustrates the increase in recommended annual contribution to be paid by the state over the next five years (based on a projection of benefit payouts).

<u>Plan Year</u>	<u>Increase in Recommended Contribution</u>
2004-2005	\$35,467
2005-2006	37,595
2006-2007	39,851
2007-2008	42,242
2008-2009	<u>44,776</u>
Total	\$199,931

This bill would affect only those participants under the Judges' 1985 Retirement System. The increase in unfunded liabilities would be approximately \$7.9 M. The fund affected is the state General Fund. The Judges' Retirement System is a pay-as-you-go system.

Background: The bill provides that the purchase of service credits by magistrates must be at full actuarial cost. This means (1) the member's salary at the time the member actually makes a contribution for the service credit; and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges' Retirement System.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund (PERF) as administrators of the Judges' Retirement System.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, actuary for PERF and the Judges' Retirement System, 576-1508.

Fiscal Analyst: James Sperlik, 232-9866.

DEFINITION

Actuarial Cost: A cost is characterized as actuarial if it derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

Cost of Living Adjustment (COLA) An across-the-board increase (decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Pay-As-You-Go Method--The Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.